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Mary Rupp, Secretary of the Board  
National Credit Union Administration  
1775 Duke Street  
Alexandria, VA 22314

**Re: Comment on Advanced Notice of Proposed Rulemaking for Part 704**

Dear Ms. Rupp;

Ent Federal Credit Union is pleased to have the opportunity to comment on the Advanced Notice of Proposed Rulemaking and request for comment (ANPR) to 12 CFR Part 704, Corporate Credit Unions.

We believe in and are committed to the spirit of credit union cooperatives and the need for a system which remains responsive to the financial service needs of Natural Person Credit Unions (NPCU), and subsequently the needs of credit union members for financial support in the form of payment systems, liquidity, and appropriate investment options. Regrettably, a variety of factors – including the deterioration in quality of highly-rated investment vehicles – combined in a short period of time to create the situation that prompted this ANPR. The result has been painful for many NPCUs; for Ent this has reached a charge of \$24 million, essentially making our 2008 performance “break even.” Looking to the future, however, this is an opportunity to seriously evaluate the current structure and examine alternatives to provide even greater vitality and prudent operation options for the future benefit of NPCUs and their individual members. It is in that spirit that these comments are offered.

In general, the need among NPCUs for some sort of resource for payment systems, liquidity, and conservative investments will continue so long as there are such credit unions. These three functions, then, constitute the core requirements for corporate credit unions, whatever the structure at the end of this process. If the resulting structure does nothing else, it should offer these components for all natural person credit unions.

**Payment Systems:**

If Payment Systems constitute one CCU core competency, it follows that the service line must be protected against adverse impacts from activities in other business areas. The challenge of segregating payment systems is the risk that maintaining a self-sufficient service line could prompt a fee structure that would inhibit some NPCUs from using the services. We suggest separation from the investment business with a measure of capital allocated should the other business lines suffer. Financials for the total entity could be consolidated for call report purposes. The governing philosophy for authorized business lines of CCUs should be that each business line is profitable and can stand on its own. This reinforces the focus on payment systems, liquidity, and investment core services.

**Liquidity:**

Liquidity is and should remain a core service of the CCU. The issue is not whether, but rather “how much?” We do not believe that access to liquidity in the CCU by a NPCU should be unlimited but rather governed by some appropriate measure (e.g. level of participation in the CCU; NPCU loan-to-share ratio, etc.). An alternative would be a cap on the amount any single credit union could draw from the CCU to meet liquidity requirements.

### **Field of Membership;**

We agree with the Board assessment that the dual influence of national fields of membership and expanded investment authority (discussed following) contributed to the current CCU challenges. To that end, we propose that a non-competitive charter be established, solely through the federal charter system. While the dual charter system continues to be a distinctive aspect of NPCUs, we do not believe its extension to the CCU level is justified any longer. There are at least three structural alternatives:

- a. Newly charter five Corporate Credit Unions, with fields of membership corresponding with the five NCUA Regions.
- b. Newly Charter twelve regional CCUs with fields of membership mirroring the twelve Federal Reserve Districts of the United States.
- c. Charter a single CCU.

In any event, the new structure would remove excessive duplication of business lines and eliminate the competitive aspect which has added to some of the issues underlying the CCU crisis. Competition will come from outside the industry from alternative providers.

### **Expanded Investment Authority;**

First, under current conditions, we propose that the NCUA Board suspend all previously approved extended investment authority for a period of time. Frankly, practices that got us here should be stopped until we develop and implement a prescription. At the same time, we do not believe CCUs should be limited to the same investment options as NPCUs; this would be a duplication of levels of risk and render the CCU investment activity either redundant or unnecessary. An investment portfolio, in any case, should be sufficiently diversified to avoid having any single sector or obligor failure mortally wound the entire structure.

That said, any extended investment authority should be accompanied by a heightened capital requirement and qualified regulatory oversight. It also implies a specific requirement for greater qualifications of the CCU Board and ALM Committee members to oversee the more complex organization. The greater the complexity and potential risk, the greater the demand for informed, sophisticated volunteers to provide the required oversight.

Finally, while it seems basic to assure that multiple ratings are part of the due diligence for an investment, the problem today remains we cannot fully trust the credit ratings. It will take some time to restore trust in the rating agencies. For the time being, CCUs should absolutely test the credit spread sensitivities (among other risk indicators) of their portfolios, as many NPCUs do today. We support prudent modeling and asset liability management analysis as ongoing standard CCU management practices.

### **Structure:**

In addition to the comments about Field of Membership (above), we believe that the two-tier CCU structure is no longer viable or justified. Further, the number of "retail corporate credit unions" is too many corporates chasing the same business. Whatever results, then, the new or remaining CCU charters should be structured to remove or greatly reduce the competitive element within the system. The distinction recognizes that there will still be market competition from non-CU sources to help sustain appropriate dividend and borrowing rates for the member NPCUs so they remain trusted partners for all credit unions.

As noted, we suggest that the dual-charter structure is no longer appropriate for CCUs and should be replaced with a single, Federal charter structure. The easiest and potentially most efficient and effective organization would be a single national charter.

**Core Capital:**

This will be challenging into the foreseeable future. NPCUs can, understandably, be reluctant to invest or deposit too much of their member resources in CCUs because of the potential for future loss, never seriously contemplated before. Restrictions at the CCU level could allow for capital levels higher than current levels but not necessarily as high as NPCUs. We do support implementation of a risk-based capital approach, in line with the capital structure of banks to avoid establishing an unfair competitive environment. Ultimately, capital levels need to be set commensurate with the risk exposure of the CCU.

On the question of allowing membership capital – It may be desirable, but we shouldn't be surprised if NPCUs take a "fool me once..., fool me twice..." position and decline to bring more of their member capital to the CCU table. At the same time, we believe a NPCU should not be required to maintain a contributed capital account in order to obtain services from their corporate. This would be especially true in a non-competitive charter environment.

**Governance:**

To help prevent recurrence of the current CCU crisis, governance must be changed consistent with the demands of the resulting structure. We believe the following merit consideration:

- a. Establish financial literacy and qualifications for Board members, whether drawn from NPCUs or other sources.
- b. The CCU Board should properly include member representation on the Board, but at least one-third of the Board(s) should be independent (not otherwise associated with the credit union system in any business capacity) members to provide a fresh perspective. (Being an individual member of a credit union – whether part of the CCU FOM or not should not be disqualifying.)
- c. Term limits would be appropriate for CCU Boards.
- d. With heightened requirements and expectations for oversight of a complex organization, CCU Boards should be appropriately compensated. Such compensation need not be exorbitant, to avoid people applying for the pay. However, it should be sufficient to recognize the extraordinary demands placed on their time and skill, and exposure as fiduciaries of the CCU.

Sincerely,



Charles F. Emmer  
President and Chief Executive Officer